



The Pakistan Credit Rating Agency Limited

## **RATING REPORT**

### **NATIONAL INVESTMENT TRUST LIMITED**

	<b>NEW [DEC-17]</b>	<b>PREVIOUS [MAY-17]</b>
Asset Manager Rating	AM2++	AM2++
Outlook	Stable	Stable

**DECEMBER 2017**



**Profile & Governance**

- NIT is the first asset management company of Pakistan, formed in 1962. The Government of Pakistan (GoP) directly and indirectly through government owned entities is major shareholder (41.65%) in the company. Other shareholders comprise prominent businessmen and commercial banks having shareholding of 8.33% each.
- These shareholders are represented by a board of ten directors. During the year, Mr. Shahid Ghaffar, stepped down as MD – NIT and has been replaced by Mr Manzoor Ahmad – former

**Assessment**

- NITL has product slate of eight open-end mutual funds and two pension funds. NIT faced attrition its AUM base by ~12% clocked in at PKR ~102 bln as at Sept-17. The market share across industry stood at ~14.6% as at Sept-17 (Dec-16: 16.3%) which is in line with industry leaders.
- The company’s flagship equity-based mutual fund, National Investment Unit Trust (NIUT) contributed ~82% in the total AUMs of the company. The company benefits strong penetration in the retail segment (Sep17: 39%, Dec16: 37%).
- Owing to their sheer size, most of the funds, available to the public, exhibits moderate concentration. The overall top10 investors in NIT represent ~35% of the overall AUM base (excluding pension funds and two privately placed funds).

**Sales & Marketing**

- During the year, Mr. S. Zubair Ahmad retired from his position and Ms. Sadaf Kazmi has joined as Head of Institutional Sales, Marketing, Business Hub at Abbotabad and Brand & Media. She is a seasoned professional with rich 17 years of rich experience across financial and corporate sector. Ms Kazmi oversees Institutional and Retail sales across NIT’s branch network. She reports to the COO.
- NIT’s extensive network of 23 branches, spread across 15 cities in Pakistan. It has a sales desk at Business Hub at Abbottabad and company’s distribution arrangements with the country’s leading commercial banks & financial institutions. NIT has built-up a sizeable pool of retail investors.
- NIT’s Investor Facilitation Centre (IFC) in Karachi is also in place to provide personalized services to customers relating to their investments in NIT Units & day to day queries.

**Investment Decision Making**

- NIT has a well-structured investment decision making process. The company ensures adherence to the stated investment policies and limits. Currently, the IC for all the funds comprises personnel from the following along with the relevant fund manager: a) Managing Director b)Chief Operating Officer, c)Head of MD’s Secretariat d) Head of Finance, e) Head of Trading, f) Manager / Incharge Risk Management, g) Head of Compliance, h) Head of Research and i)Fund Manager.
- The fund management team consists of experienced fund managers having vast experience in Equity & Fixed Income categories. The fund managers reports directly to Chief Operating Officer.
- NIT’s research department is headed by Mr. Imran Rafiq – an MBA and CFA – reporting directly to the COO. The research department follows a top-down approach for investment analysis. A detailed macro-economic model has been developed. The research universe at NIT comprises of various companies including top bluechip scrips from diversified sectors across the industry

**Risk & Compliance**

- Risk & Compliance are a separate function at NIT.
- Mr. Ammar Habib Khan, a Certified Financial Risk Manager (FRM) with a diversified experience in Banking, Risk Management, and Investment Management, of over eight years, heads the department. He has an M.Phil in Macroeconomic Policy & Financial Markets, and has also passed 2 levels of the CFA program.
- The department oversees Market risk, Credit risk, Liquidity risk, Concentration risk & Counterparty Risk over fund investments in Equity, Fixed income and pension categories.
- The Compliance department is headed by Mr. Faisal Aslam. He has an MBA (Finance) with more than a decade experience in Mutual Fund Industry. The compliance function monitors all regulatory guidelines and limits as specified in the NBFCs regulations, listing requirements, corporate regulations.

**Technology & Investors Services**

- NIT is using Asset Connect as the core asset management software procured from Softech Systems. The company offers instant redemption of mutual funds to NI(U)T unit holders through 1 Link ATM outlets in collaboration with Summit Bank. Moreover, Client Reporting System enables investors to retrieve their investment profile through a web page.

**RATING RATIONALE**

The rating reflects the company's established position as the oldest and a key player in the domestic asset management industry. The rating incorporates NITL’s leading position with regards to retail penetration owing to its long operational history and sizeable outreach; in turn enhancing sustainability to its business profile. The company’s exceptional financial profile enhances its positioning in the competitive landscape with regards to its capacity to bring sophistication in its business philosophy and operating infrastructure. NIT’s sustained focus on enhancing the relative size of non-equity funds benefitted AMC in diversification of AUMs base among various asset classes. This diversification of fund slate, alongwith the management’s plan to further augment it, bodes well in its positioning in competitive landscape. The company's experienced management team, a well-structured investment process alongwith recent improvements in investment risk management function adds value to the overall decision making process. With significant size, the performance of NIT’s leading fund has been superior.

**KEY RATING DRIVERS**

The rating is dependent on management’s ability to hold its position in the increasingly challenging asset management industry. Herein, diversity to its AUM mix, upholding existing organization structure along with retention of key human resource, customer outreach through alternative channels remain imperative for NIT. Meanwhile, consistency in fund performance remains crucial.

**INDUSTRY SNAPSHOT**

During 9MCY17, the industry AUM’s dropped by 2.5% mainly led by the bearish momentum on PSX’s performance on the back of political instability and deteriorated economic conditions. This consequently resulted in an attrition in the asset base of equity category of 9% (8MCY17: 40%; CY16:46%) decreasing their system share. On the flip side, the money market funds benefited from the consistent inflow from the Equity and fixed Income based funds. This was a result of continuity of the benign inflation. low interest rate environment, excess liquidity. The Fund of Funds and Asset Allocation Plans were the main focus of industry players as the fund managers opting in risk averse strategy to bail out deteriorating risk appetite in the capital markets. Resultantly, Shariah compliant active allocation schemes remained favourite amongst the Asset Managers

Financial Summary								
Sr. #	Fund	Category	Asset Under Management		Return – FY'17	Benchmark Return – FY17	Top 10 Investors Concentration	Performance Ranking (Jun 17)/ Stability Rating
			Sep-17 (PKR mln)	Dec-16 (PKR mln)				
1.	NIT Government Treasury Fund –NIT-GTF	Money Market	1,262	1,046	4.95%	5.27%	93.0%	AA+
2.	NIT Government Bond Fund –NIT-GBF	Income	4,333	4,080	5.28%	5.80%	76.0%	AA
3.	NIT Income Fund -NIT-IF	Income	4,823	3,868	5.37%	6.10%	70.0%	A+(f)
4.	NIT Islamic Income Fund – NIT-IIF	Shariah-Compliant Income	455	580	4.61%	3.11%	74%	AA-
5.	National Investment Unit Trust -NIUT	Equity	74,583	87,968	35.44%	23.24%	33.0%	Not Ranked
6.	NIT Islamic Equity Fund – NIT-IEF	Shariah-Compliant Equity	4,227	4,729	18.38%	18.80%	49%	Not Ranked

## RATING SCALE & DEFINITIONS: Asset Management Industry

These ratings/rankings are not a recommendation to buy, sell, or hold any investment, in as much as they do not comment as to the yield or suitability for a particular investor. Eventually the risk/reward trade-off should be determined solely by investors

### ASSET MANAGER RATINGS

#### **AM1: Very high quality**

Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.

#### **AM2++, AM2+, AM2: High quality**

Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.

#### **AM3++, AM3+, AM3: Good quality**

Asset manager meets investment management industry standards and benchmarks.

#### **AM4++, AM4+, AM4: Adequate quality**

Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.

#### **AM5: Weak**

Asset manager does not meet the minimum investment management industry standards and benchmarks.

+ = (Plus)

++ = (Double Plus)

### FUND STABILITY RATINGS

#### **AAA(f)**

An exceptionally strong capacity to maintain relative stability in returns and possesses negligible exposure to risks.

#### **AA+(f), AA (f), AA-(f)**

A strong capacity to maintain relative stability in returns and possesses low exposure to risks. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions

#### **A+(f), A (f), A-(f)**

A fund with stable performance generally in line with its peers with adequate capacity to respond to future opportunities or stress situations.

#### **BBB+(f), BBB (f), BBB-(f)**

An adequate capacity to maintain relative stability in returns and possesses high exposure to risks. This capacity may be impacted adversely by changes in circumstances or in economic conditions.

#### **BB+(f), BB (f), BB-(f)**

A low capacity to maintain stability in returns and possesses very high exposure to risks

#### **B(f)**

A very low capacity to maintain stability in returns and possesses very high exposure to risks.

*The fund stability rating scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings.*

### FUND PERFORMANCE RANKINGS

**5-Star** Very good performance

**4-Star** Good performance

**3-Star** Average performance

**2-Star** Below average performance

**1-Star** Weak performance

### CAPITAL PROTECTION RATINGS

#### **CP1**

Very strong certainty of capital protection.

#### **CP2+ CP2**

Strong certainty of capital protection.

#### **CP3+ CP3**

Good certainty of capital protection.

#### **CP4+ CP4**

Adequate certainty of capital protection.

#### **CP5**

Weak capital protection.

**Rating Watch:** Alerts to the possibility of a rating change subsequent to, or in anticipation of some material identifiable event. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

**Rating Outlooks:** Indicates the potential and direction of a rating in response to a) trends in economic and/or fundamental business/financial conditions and/or deviation from expected trend. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Being based on actual performance, no Outlook or Rating Watch can be assigned to fund performance rankings.**

**Suspension:** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.

#### **Withdrawn:**

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity or c) the rating remains suspended for six months or d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.



## Regulatory and Supplementary Disclosure

### Rated Entity

**Name of Rated Entity**  
**Sector**  
**Type of Relationship**

National Investment Trust Limited  
AMC  
Solicited

### Purpose of the Rating

Regulatory Requirement

### Rating History

Dissemination Date	Asset Manager Rating	Outlook	Action
8-Dec-17	AM2++	Positive	Maintain
25-May-17	AM2++	Stable	Upgrade
18-Aug-16	AM2+	Positive	Maintain
8-Jun-16	AM2+	Stable	Harmonize
31-Mar-16	AM2	Stable	Maintain

### Related Criteria and Research

Master Methodology:  
Specific Methodology:  
Research:

Asset Management Rating Methodology [2016]  
-  
Asset Management Sector Review -2017

### Rating Analysts

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### Rating Team Statement

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

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